

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

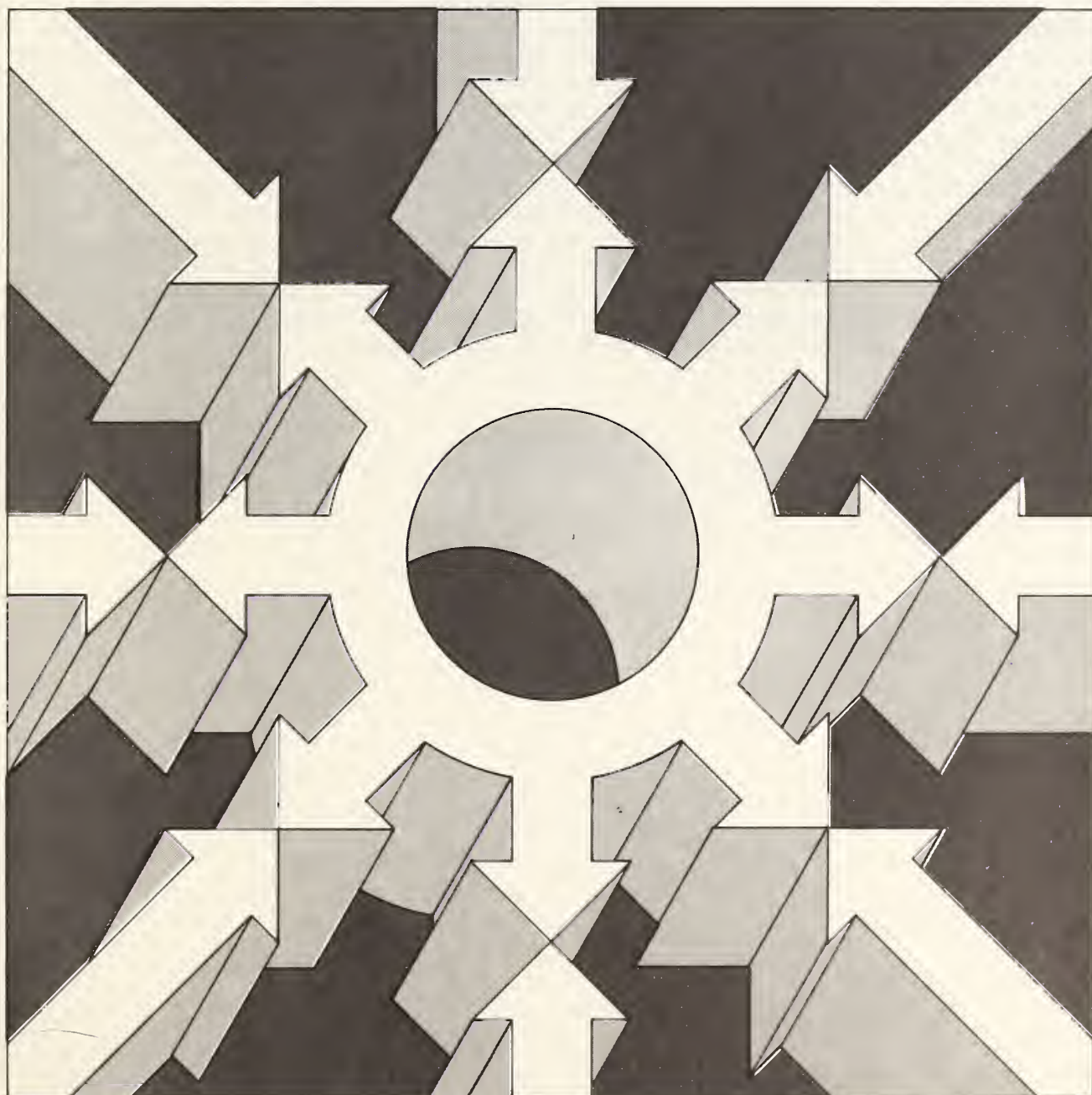


United States
Department of
Agriculture

Agricultural
Cooperative
Service

ACS
Research Report
Number 59

Local-Regional
Cooperative
Relationships
in the Midsouth



Local-Regional Cooperative Relationships in the Midsouth

Lloyd C. Biser, Agricultural Economist, Agricultural Cooperative Service,
U.S. Department of Agriculture, John R. Dunn, Program Leader-Farm
Supplies, Agricultural Cooperative Service, U.S. Department of
Agriculture

Key words: Cooperatives, management practices, market share,
competition.

Abstract

This study examines the relationships between local and regional cooperatives in a federated system. These relationships provide the foundation for a federated system to be competitive and successful in achieving cooperatives' purpose of enhancing the economic well-being of their farmer-members. The study looks at the federated systems in two Midsouth States. Information for this report, including sales, finances, services, management practices, and management opinions, was obtained through a series of personal interviews with representatives of 18 local cooperatives, nine in each State, and the two regional cooperatives. The need for increased involvement by the regional cooperative in local cooperative operations and decisionmaking was indicated. Greater use of the regional as a coordinating mechanism for intralocal and interlocal business actions was seen by cooperative managers as a necessary adjustment in their federated system to the economic and competitive pressures facing local cooperatives.

ACS Research Report Number 59

January 1987

Preface

This study was undertaken to examine the relationships between local and regional cooperatives in a federated system. These relationships provide the foundation for a federated system to be competitive and successful in achieving cooperatives' purpose of enhancing the economic well-being of their farmer-members.

The study examines the federated systems in two Midsouth States. Information for this report, including sales, finances, services, management practices, and management opinions, was obtained through a series of personal interviews with representatives of 18 local cooperatives, nine in each State, and the two regional cooperatives. Local cooperatives participating in the study were selected so that three cooperatives in each state would fall into large, medium, or small categories based on sales.

Direct comparison or contrast between the two federated systems is not the thrust of this report. Both have a long and highly successful history, marked by recognition of the uniqueness of their own business environment. Where comparisons are made in this report, the designations such as "Regional A" or "State B" are used. Finally, it should be noted that given the small number of cooperatives in the study and in the study's groupings of the cooperatives, generalizations about the findings to all locals in the States, or two federated systems in general, must be made with caution.

Contents

HIGHLIGHTS	v
DESCRIPTION OF COOPERATIVE OPERATIONS	1
Local Cooperative Sales Volumes	1
Financial Condition of Locals	3
Operating Services Provided by Regionals	3
Services and Functions Performed by Locals	4
Competitive Environment and Market Share	4
LOCAL USE OF REGIONAL	5
Source of Local Supplies	5
Delivery of Local Supplies and Services	6
EVALUATING REGIONAL INVOLVEMENT	7
Local Managers Evaluate Regional Involvement	7
Regional Managers View Regional Involvement	9
THEMES AND CONCLUSIONS OF THE STUDY	10
The Need for a Changed Relationship	10
The Evolving Role for the Federated Regional	11
Strategy for Growth	11

Highlights

A total of 18 local supply cooperatives in the Midsouth were grouped by sales volume into large, medium, and small locals. Large locals averaged \$11.3 million in 1984 sales, medium-size local, \$5.9 million, and small locals \$2.5 million. Average sales climbed about 9 percent, to \$6,593,000, between 1981 and 1984.

Total assets increased from 1981 to 1984 for large and small locals, but declined slightly for medium-size locals. Total liabilities decreased, while net worth (equity) increased for each size group of local cooperatives (table 3). The average local in 1981 had total assets of \$2.7 million, total liabilities of \$1.2 million, and net worth of \$1.5 million. In 1984, total assets remained at \$2.7 million, total liabilities decreased, and net worth rose to \$1.9 million from \$1.5 million in 1981 (table 4).

Net margins were lower in 1984 than in 1981 for each of the three groups and for each State. Net margins for the average local declined from \$291,000 in 1981 to \$227,000 in 1984. Patronage received from the regional declined from \$160,000 to \$93,000 and patronage paid to farmers declined from \$200,000 in 1981 to \$164,000 in 1984. Large locals were far more dependent on regionals for their net margins than were locals in the other size groups.

Local cooperatives in the study sold an estimated 42 percent of all farm supplies within a 25-mile trade area. Fertilizer, with a 57-percent market share, led the way, followed by chemicals, 47 percent, and feed, 45 percent. Only in petroleum did local cooperative shares dip below 40 percent.

Local managers identified several factors important for maintaining and increasing their share of the market. These factors include (1) credit management, (2) member loyalty, (3) price competition, (4) direct shipment of supplies, (5) direct sales to farmers, (6) farmer's ability to pay, (7) onfarm sales and salesmanship, and (8) return on investment from product sales and service.

The 18 locals purchased 88 percent of their total supplies from their regional cooperatives (table 8). About 9 percent were purchased from noncooperative firms, and 2 percent from other locals; 1 percent were manufactured by individual locals (feed). Local cooperatives were most dependent on their regionals for petroleum (99 percent) and least dependent on regionals for fertilizer and seed (82 and 83 percent).

Large locals purchased 85 percent of supplies from regionals and 12 percent from noncooperatives; medium cooperatives purchased 90 percent from regionals; and small cooperatives, 88 percent from regionals.

Just over half of local supplies purchased from regionals were picked up by locals using their own delivery equipment. Local cooperatives delivered 9 percent of supplies to other locals and 10 percent were delivered to locals by noncooperative distributors or contract haulers. Regional cooperatives delivered 26 percent of supplies purchased by local cooperatives.

Sixteen member local managers of two regional federations evaluated the level of regional involvement (input) in 10 local activities. These activities, selected to be representative of the range of locals' typical operations, included provision of product information, product sales, product support services, product purchasing, advertising, financial services, personnel selection, receivables management, merchandising, and operating efficiency.

Local managers most frequently indicated moderate regional involvement in 10 local activities, evoking the moderate rating 41 times. High involvement was indicated 27 times; substantial involvement, 31 times; low involvement, 22 times; and no involvement, 39 times. Taken as a composite, local managers indicated a moderate level of regional involvement in all local activities

Significant differences existed in the involvement ratings between the States. In State A, locals rated regional involvement, on an activities basis, at the substantial level, 2.59, and on the personnel level, a moderate 1.53. This contrasts with State B, in which locals gave low average involvement ratings of 1.05 and 1.19 on the activities and personnel-based measures, respectively.

Regional managers indicated a higher than average level of regional involvement in three local activities—product purchase, advertising, and financial services. They indicated a relatively low level of involvement in five local activities. Personnel selection received the lowest regional attention of any local activity, followed by product sales, managing receivables, merchandising, and operating efficiency. Thus regional manager ratings were consistent with those of the local managers.

Local and regional managers say more regional involvement in local operations strengthens the cooperative system. While in some parts of the country, a declining role for regional cooperatives is seen, the two federated cooperative systems in the Midsouth are following the belief that regionals can do more by coordinating activities and services with member locals.

Initially, the purpose of the regional was to serve member locals by obtaining low-cost, high-quality supplies. Out of this, a role was developed for the regional in promoting the cooperative system and the member local as the farmer's best source of supplies and services. Finally, a new role for the federated regional has begun, that of a centralized business support and system coordinating mechanism.

Hence, the regional becomes the focal point for information, recordkeeping, and data processing. Functions of this nature, formerly performed by locals, will probably be transferred to the regional where economies of scale and sophisticated technology may be used.

LOCAL-REGIONAL COOPERATIVE RELATIONSHIPS IN THE MIDSOUTH

Lloyd C. Biser
Agricultural Economist

John R. Dunn
Program Leader-Farm Supplies

DESCRIPTION OF COOPERATIVE OPERATIONS

Local farm cooperatives in two Midsouth States organized and established their regional cooperatives more than 40 years ago. Each of the two federated systems grew and prospered over the following decades. By 1983, the estimated share of farm purchases accounted for by the cooperative systems in these two States reached a combined 33 percent. By 1984, more than 150 local cooperatives, representing more than 140,000 farmer-members, had become members of these federated regionals. Total memberships of local cooperatives involved in this study ranged from 500 in small locals to 1,500 in larger locals.

Local Cooperative Sales Volumes

The 18 local supply cooperatives were grouped by sales volume into large, medium, and small locals. Large locals averaged \$11.3 million in 1984 sales; medium-size locals, \$5.9 million; and small locals, \$2.5 million (table 1). From 1981, the previous peak sales year, to 1984, sales by cooperatives in the large-size category grew by 14 percent, sales by small locals grew by 10 percent, while sales by cooperatives in the medium-size category fell by

an average 1 percent. For all locals in the study, average sales climbed about 9 percent, to \$6,593,000 (table 2).

Fertilizer and feed were the most important product categories for local cooperatives in terms of total sales, both about 26 percent. Supplies, including hardware, automotive, equipment, and building materials among other items, accounted for nearly 20 percent. Chemicals, petroleum, and seed followed with 12-, 10-, and 6-percent shares, respectively.

The structure of sales was nearly the same for each local size category, except in supplies, which accounted for 24 percent of large locals' sales, 11 percent for medium locals, and 20 percent for small locals. Locals in State B were relatively more dependent on supplies sales than locals in State A (26 versus 10 percent) and less dependent on feed and fertilizer sales (31 versus 23 percent and 29 versus 25 percent, respectively).

Locals in State B enjoyed most of the gain in sales experienced by the cooperatives involved in the study. Their sales increased nearly 17 percent, in contrast to a 2-percent average decline in State A. Product groups leading the increases in State B were supplies, up 53

Table 1—Average local cooperative business by size, 1981 and 1984

Product	Large		Medium		Small	
	1981	1984	1981	1984	1981	1984
1,000 dollars						
Feed	2,528	2,852	1,666	1,659	543	623
Fertilizer	3,145	2,942	1,497	1,562	660	765
Petroleum	952	1,005	808	740	295	256
Chemicals	975	1,107	1,003	908	193	253
Seed	594	637	398	367	162	162
Supplies	<u>1,680</u>	<u>2,758</u>	<u>607</u>	<u>671</u>	<u>476</u>	<u>514</u>
Total	9,874	11,301	5,979	5,907	2,329	2,573

Table 2—Average local supply sales in two regional areas, 1981 and 1984

Product	1981			1984		
	State A	State B	Average	State A	State B	Average
<i>1,000 dollars</i>						
Feed	1,584	1,575	1,579	1,572	1,850	1,711
Fertilizer	1,531	2,003	1,767	1,481	2,032	1,756
Petroleum	561	809	685	451	883	667
Chemicals	624	822	723	639	873	756
Seed	399	371	385	403	374	389
Supplies	438	1,404	921	484	2,145	1,314
Total	5,137	6,984	6,060	5,030	8,157	6,593

Table 3—Financial condition of 18 locals by size, 1981 and 1984

Item	Large co-ops		Medium co-ops		Small co-ops	
	1981	1984	1981	1984	1981	1984
<i>1000 dollars</i>						
Total assets	4,342	4,452	2,584	2,556	1,120	1,126
Total liab.	1,704	1,435	1,075	782	506	361
Net worth-equity	2,638	3,017	1,509	1,774	614	765
Net margin	382	253	300	257	191	170
Patronage from regional	300	183	122	61	60	34
Patronage to members	307	234	259	226	34	32
Equity revolved	64	59	66	76	7	9

Table 4—Financial condition of 18 locals by area, 1981 and 1984

Item	1981			1984		
	State A	State B	Average	State A	State B	Average
<i>1000 dollars</i>						
Total assets	2,432	2,932	2,682	2,367	3,055	2,711
Total liab.	1,147	1,276	1,211	669	1,049	859
Net worth	1,285	1,656	1,471	1,698	2,006	1,852
Net margins	247	335	291	222	231	227
Pat. from reg.	109	212	160	32	154	93
Patronage paid	199	201	200	177	151	164
Equity revolved	41	50	45	45	51	48

percent; feed, up 18 percent; and petroleum, up 9 percent. Product groups leading the declines in State A were petroleum, off 20 percent, and fertilizer, off 3 percent.

Financial Condition of Locals

Total assets increased from 1981 to 1984 for large and small locals but declined slightly for medium-size locals. Total liabilities decreased, while net worth (equity) increased for each size group of local cooperatives (table 3). The average local in 1981 had total assets of \$2.7 million, total liabilities of \$1.2 million, and net worth of \$1.5 million. In 1984, total assets remained at \$2.7 million, total liabilities decreased, and net worth rose to \$1.9 million from \$1.5 million in 1981 (table 4).

Locals in all three size categories made marked improvement in their financial structure between 1981 and 1984, with average liabilities-to-total-assets ratios declining from 0.45 to 0.32. This magnitude of improvement was experienced by locals affiliated with both regional cooperatives.

Net margins were lower in 1984 than in 1981 for each of the three groups and for each State. Net margins for the average local declined from \$291,000 in 1981 to \$227,000 in 1984. Patronage received from the regional declined from \$160,000 to \$93,000 and patronage paid to farmers declined from \$200,000 in 1981 to \$164,000 in 1984. The dependence of local cooperative net margins on patronage refunds received from the regional cooperatives also fell slightly between 1981 and 1984. Regional refunds accounted for 55 percent of local net margins in 1981 and 41 percent in 1984.

Large locals were far more dependent on regionals for their net margins than were locals in the other size groups. Large locals received the equivalent of 72 percent of their net margins from regionals in 1984, compared with 24 percent for medium-size locals and 20 percent for small locals. Locals in State B received the equivalent of 67 percent of net margins through refunds from the regional, compared to 41 percent in State A in 1984.

Operating Services Provided by Regionals

Products and services to farmers in the Midsouth are provided through a combination of regional and local cooperative efforts. Most direct dealings with farmers are through the local cooperative, but the locals and regionals share responsibility for how the cooperative system

reaches the farmer. In general, the division of responsibility for various operations and services is divided between the locals and regionals in an effort to maximize the efficiency of the entire system. The regionals' primary role is to provide inputs and distribution at the lowest cost and to provide support to the locals in their efforts to attract business from farmers.

Regionals purchase products in volume. They warehouse some products and deliver some to locals. They manufacture feed, provide fertilizer ingredients, operate petroleum terminals, and deliver these products in bulk to locals. They test soil, clean seed, and provide quality control in product items.

Regionals publish and distribute information for locals and farmers on chemicals and pesticides, crop production, farm management practices, insurance programs, policies, and benefits.

Regional staff members assist locals in advertising, merchandising, accounting, budgeting, data processing, and insurance needs. Product managers assist locals in purchasing, pricing, and sales, and field representatives provide the latest technical information on new products, management services, and operating practices.

The two regionals have long put special emphasis on education and training programs for local managers and employees. Their plan was to teach the operations of the cooperative system and build a foundation of mutual trust between management and employees at all levels of cooperative activity.

The director of education and training believed this could be accomplished through personal contact from recruitment through orientation and training, to placement at the local cooperative where personal contact and training continue for all employees. Training programs are conducted for potential local managers as well as for other employees of the local and regional cooperative.

Local boards of directors usually select and employ managers from several potential candidates trained and recommended by the regional. Local managers hire and help train employees. However, regionals are involved in identifying, recruiting, and training employees with management potential. New employees, after orientation and training by the regional, are employed at locals or the regional.

Services and Functions Performed by Locals

Locals typically provide services such as fertilizer blending, feed formulation, bag and bulk delivery of product, and field application of fertilizer, herbicides, and pesticides. Though feed manufacturing is primarily the responsibility of the two regional cooperatives, some of the larger locals operate feed manufacturing facilities. Many locals provide regular delivery of petroleum and other products, onfarm equipment repair, tractor tires, and batteries. Electric motors, fencing, paint, lumber, lawn and garden needs, and home supplies are handled by the local and are frequently delivered to farms.

Some services are shared by regional and local cooperatives, including moving products to the local and to the farm. With regional representatives, locals aid farmers in seed selection, soil testing, fertilizer and chemical analysis, application rates, crop and soil management, and general farm management practices.

Services are frequently shared by two or more locals. Most often this involves delivery services. In one case, one local delivers feed while another delivers petroleum to farmers in both cooperatives' trade areas. Another group of locals, in an effort to spread overhead and lower costs, share field sales people, chemical and fertilizer application, and bulk delivery of products. Locals frequently purchase products or exchange supplies with each other to help balance inventories or alleviate shortages. Some locals are presently considering joint ventures in several areas as a strategy for overcoming tough competition.

In some isolated cases, locals have been forced to reduce certain services due to limited demand or excessively high costs. These discontinued services include (1) chemical and pesticide application, (2) nitrogen supply and service, (3) feed grinding, (4) bulk delivery, and (5) retail gasoline stations and tire mounting.

Competitive Environment and Market Share

Many factors affect the nature of the competitive environment faced by local cooperatives in their trade territories. These include (1) size of territory, (2) number of competitors, (3) strengths and weaknesses of competitors, (4) characteristics of buyers, (5) operational efficiency, and (6) cooperative support structure. How well cooperatives and the cooperatives' system respond and perform with respect to these factors will determine what share of the market they will gain over the long haul.

On average, local cooperatives make 85 percent of their sales in a trade and service area that is within a 25-mile radius of their headquarters (table 5). For large locals, the radius is 31 miles; medium-size locals, 24 miles; and small locals, 20 miles. Within their primary trade territory, local cooperatives had an average of four major competitors, three noncooperative firms and one cooperative. Unlike many other areas of the country, local cooperatives in the Midsouth tend to confine their operations to a single county. However, as data in table 6 show, this does not totally eliminate competition among cooperatives, particularly in the outlying areas of their trade territories.

Local cooperatives in the study sold an estimated 42 percent of all farm supplies sold within their primary

Table 5—Size of primary trade and service area

Product	Size of co-op			
	Large	Medium	Small	Average
	<i>Miles</i>			
Feed	33	25	20	26
Fertilizer	33	25	20	26
Petroleum	22	23	20	22
Chemicals	33	22	20	25
Seed	33	27	20	27
Supplies	33	25	20	25
Average	31	24	20	25

Table 6—Product competitors of large, medium and small cooperatives

Product and Services	Competing firms of Co-ops				Cooperative competition
	Large co-op	Medium co-op	Small co-op	Average co-op	
	<i>Number</i>				
Feed	3	3	2	3	1
Fertilizer	3	3	3	3	1
Petroleum	5	6	3	5	1
Chemicals	3	3	2	3	1
Seed	4	3	2	3	1
Supplies	5	4	3	4	1
Average	4	4	3	3	1

trade territories (table 7). Fertilizer, with a 57-percent market share, led the way, followed by chemicals, 47 percent, and feed, 45 percent. Only in petroleum did local cooperative shares dip below 40 percent.

Small cooperatives appeared to have the largest share of the market in their primary trade territories, with 45 percent. Fertilizer and chemicals provided the small cooperatives their highest market shares, with 62 and 57 percent, respectively. Medium-size cooperatives achieved a 41-percent share of farm supply sales in their primary trade territories, led by fertilizer, 51 percent, and feed, 47 percent. Large cooperatives attained a 40-percent share across all products, with fertilizer, at 58 percent, being most notable.

The higher-than-average cooperative share of small locals (45 percent) lends credibility to the value of regional involvement in local operations. For example, the number of competitors of small locals (3) was only one less than medium-size and large locals (4). In general, small locals operated in less productive agricultural areas and their competitors tended to be smaller, limited by weak management, and poorly financed. Their high level of involvement with their regional cooperatives appears to have given the small cooperatives some distinct competitive advantages over competitors in their local trade areas: (1) product purchase through regionals, (2) product information from regionals, and (3) operating efficiency—with management help from the regional.

By contrast, the competitors of large and medium-size locals were typically large regional or national firms with

stronger management, finances, and buying power. In the face of this more sophisticated competition, the ability of locals to achieve relatively high market shares is evidence of the importance of their relationship with their regional cooperatives.

In addition to their relationship with their regional cooperative, local managers identified several factors important for maintaining and increasing their share of the market. These factors include (1) credit management, (2) member loyalty, (3) price competition, (4) direct shipment of supplies, (5) direct sales to farmers, (6) farmer's ability to pay, (7) onfarm sales and salesmanship, and (8) return on investment from product sales and service.

LOCAL USE OF REGIONAL

Member locals and two regionals in this study are prime examples of federated cooperatives working together to serve the farmer. While this relationship has many facets, its focus is on the acquisition and delivery of farm supplies to the local for subsequent sale to the farmer. The level and nature of local support and use of regional products and services can be an indicator of the level of regional involvement in local operations.

Source of Local Supplies

The 18 member locals purchased 88 percent of their total supplies from their regional cooperatives (table 8). About 9 percent were purchased from noncooperative firms and 2 percent from other locals; 1 percent were manufactured by individual locals (feed).

Table 7—Share of market by large, medium and small cooperatives

Product	Percent of total business by product			
	Large	Medium	Small	Average
	<i>Percent</i>			
Feed	46	47	43	45
Fertilizer	58	51	62	57
Petroleum	22	27	16	22
Chemicals	45	39	57	47
Seed	37	41	44	41
Supplies	33	42	45	40
Average	40	41	45	42

Table 8—Source of supplies for 18 local cooperatives, 1984

Supplies	Manufactured by local	Source of purchase			Total
		Regional	Other co-op	Nonco-op firms	
		<i>Percent</i>			
Feed	4	88	1	7	100
Fertilizer	-	85	1	14	100
Petroleum	-	99	-	1	100
Chemicals	-	91	6	3	100
Seed	-	83	1	16	100
Supplies	-	89	2	9	100
Average	1	88	2	9	100

Local cooperatives depend on their regionals to supply 99 percent of their total requirements of petroleum. Locals were least dependent on regionals for fertilizer and seed; however, they still used regionals as the source of 85 and 83 percent of their purchases, respectively. For most products, noncooperative firms were the source of nearly all the supply volume not purchased through the regional. The only exceptions were chemicals, (6 percent were received from other locals, primarily through inventory balancing transactions) and feed (locals manufactured 4 percent of their total requirements).

A breakdown of source of supplies for large, medium-size, and small locals is shown in table 9. Large locals purchased 85 percent of supplies from regionals and 12 percent from noncooperatives, medium-size cooperatives purchased 90 percent from regionals, and small cooperatives purchased 88 percent.

While large size-locals used regionals less in proportion to medium-size and smaller locals, the differences were not large enough to assume that all large cooperatives used regionals less, that large locals were less involved with regionals, nor that the level of regional involvement depended upon or was affected by local use of regionals. Small and medium-size locals, purchased only 7 percent of products outside the co-op system compared with 12 percent for the large locals. This difference, while relatively small, likely reflects the different product line mix for large locals in the general supplies area.

Delivery of Local Supplies and Services

Just over half of local supplies purchased from regionals were picked up by locals using their own delivery

equipment. Local cooperatives delivered 9 percent of supplies to other locals, and 10 percent were delivered to locals by noncooperative distributors or contract haulers. Regional cooperatives delivered 26 percent of supplies purchased by local cooperatives (table 10).

Generally, locals can plan ahead to pick up some supplies at costs lower than regionals can deliver. Sharing loads and equipment with other local cooperatives and using contract haulers, when advantageous, can minimize the cost of delivery to the locals. Such strategies also reduce the resources that the regional must allocate to delivery services, resulting in savings for the full cooperative system.

Large cooperatives in the study group picked up 50 percent of their total supplies using their own equipment. Regional cooperatives and contract haulers delivered 29 and 14 percent of their supplies respectively (table 11).

Table 10—Delivery of supplies to 18 member locals, 1984

Supplies	Picked up by local	Delivered to local cooperative by			Total
		Regional	Other locals	Contract haulers	
<i>Percent</i>					
Feed	68	13	15	4	100
Fertilizer	57	27	8	8	100
Petroleum	55	27	5	13	100
Chemicals	55	28	9	8	100
Seed	46	30	9	15	100
Supplies	52	28	7	13	100

Table 9—Source of total supplies by size of local, 1984

Size of co-op	Manufactured by local	Purchased from			Total
		Regional	Other co-op	Non co-op	
<i>Percent</i>					
Large	2	85	1	12	100
Medium	1	90	2	7	100
Small	1	88	4	7	100
Average	1	88	2	9	100

Table 11—Delivery of supplies to large, medium and small locals

Size of group	Picked up by local	Delivered to local cooperative by			Total
		Regional	Other locals	Contract haulers	
<i>Percent</i>					
Large	50	29	7	14	100
Medium	71	26	0	3	100
Small	45	21	19	15	100
Average	55	26	9	10	100

Medium-size locals picked up 71 percent of supplies from the regional warehouse or from suppliers and used contract haulers for only 3 percent of supplies handled. Small locals picked up 45 percent of their supplies, hired contract haulers for 15 percent, and relied on other cooperatives to deliver 19 percent. While the small sample involved in this study precludes conclusions about differences in delivery or pickup strategies among the locals, the data indicate the type of flexibility present in the system.

EVALUATING REGIONAL INVOLVEMENT

A close working relationship between regional and local cooperatives, encompassing all areas of operations, should be the foundation for a successful federated system. The success of the federated regional system is ultimately measured by its positive impact on sales and services at the local cooperative level. Locals, by supplementing their individual strengths with information, advice, and support from their regional organization, can improve their own management practices, sales volume, and operating efficiency.

Local managers believe, by a 4-to-1 margin, that farmers are better served if locals work closely with regionals. They believe the degree of local involvement depends not only on the initiative of the regional but on the initiative of locals as well. They were nearly evenly divided over whether locals or regionals were more likely to initiate closer working relations. Regional general managers also feel that farmers are better served when regionals work with member locals to make them stronger and more efficient. They say the level of regional involvement depends on the initiative of both local and regional cooperatives. Thus, participants in these two federated systems firmly believe in an interactive system of mutual dependence.

Local Managers Evaluate Regional Involvement

Sixteen local managers of two regional federations evaluated the level of regional involvement (input) in 10 local activities. These activities, selected to be representative of the range of locals' typical operations, included (1) provision of product information, (2) product sales, (3) product support services, (4) product purchasing, (5) advertising, (6) financial services, (7) personnel selection, (8) receivables management, (9) merchandising, and (10) operating efficiency. Each manager ranked regional involvement in each of these local activities on a scale from not involved to low,

moderate, substantial, or highly involved in each activity. These adjective ratings were transformed to numeric ratings on a 0-to-4 scale with 0 meaning no involvement and 4 meaning highly involved.

The type of regional involvement in these activities included personal contact, communicating, advising, suggesting local practices, and exchanging information between regional staff members and local management. Regional input is advisory, not directive, and precedes board and manager decisionmaking in member locals.

Local managers most frequently indicated moderate regional involvement in 10 local activities, evoking the moderate rating 41 times. High involvement was indicated 27 times; substantial involvement, 31 times; low involvement, 22 times; and not involved, 39 times. Taken as a composite, local managers gave regional involvement level a score of 1.9, indicating moderate involvement across all local activities (table 12).

Local managers' evaluation of regional involvement in individual activities varied considerably. In one activity (product information), eight local managers indicated high regional involvement and six substantial involvement, resulting in a composite rating of 3.3. Product services, with a rating of 2.4, was the only other activity for which local managers indicated regional involvement in the higher-than-moderate range.

Moderate regional involvement was indicated in advertising (2.2), products purchased (2.0), financial services (2.0), product sales (1.8), merchandising (1.6), and operating efficiency (2.6). The lowest involvement ratings were in personnel selection (1.4) and managing receivables (0.9).

Local managers were also asked to evaluate the level of regional involvement in terms of involvement by key regional personnel, including the general manager, division or department heads, field representatives, product specialists, and training directors. This group of regional personnel represents the major contact between the regional and locals. Average ratings of involvement by personnel and across all 10 operating activities are provided in table 13, by State and local size group.

There appeared to be little difference in involvement ratings between locals in the three size categories, both in the activities-based rating and the personnel involvement rating. While average ratings for the medium-size and large locals were slightly higher than for the small

Table 12—Local managers evaluate level of regional involvement in 10 local activities, 1984

Local co-op activities	Average numeric rating	Regional involvement in local activities				
		High	Substantial	Moderate	Low	Not involved
		<i>Number</i>				
Product purchased	2.0	2	5	3	3	3
Product services	2.4	5	3	3	4	1
Product information	3.3	8	6	1	0	1
Product sales	1.8	0	3	8	3	2
Advertising	2.2	3	4	4	2	3
Financial services	2.0	5	2	2	2	5
Personnel selection	1.4	2	2	3	2	7
Managing receivables	0.9	1	2	2	1	10
Merchandising	1.6		0	3	7	3
Operating efficiency	1.6	1	1	8	2	4
Total	1.9	27	31	41	22	39
Percent		17	19	26	14	24

Table 13—Average involvement ratings by local managers, across all activities, and all regional personnel

Group	Average involvement rating based on:	
	Local operating activities	Involvement by regional personnel
State A:		
Large	2.86	1.72
Medium	2.55	1.41
Small	2.35	1.47
All State A	2.59	1.53
State B:		
Large	0.90	1.14
Medium	1.35	1.35
Small	0.90	1.07
All State B	1.05	1.19
All large	1.88	1.43
All medium	1.95	1.38
All small	1.62	1.27

cooperatives, the differences were not enough to warrant concrete conclusions. In State A, larger locals tended to rate the level of regional involvement higher.

Significant differences existed in the involvement ratings between the States. In State A, locals rated regional involvement, on an activities basis, at the substantial level, 2.59, and on the personnel level, a moderate 1.53. This contrasts with State B, in which locals gave low average involvement ratings of 1.05 and 1.19 on the activities and personnel-based measures, respectively.

These differences between the two States are consistent with the organizational philosophies expressed in the two States during interviews for this study. In State A, the local and regional cooperatives have long identified themselves as being parts of a singular cooperative system. In State B, the philosophy has been more oriented toward independent and autonomous locals to be served at arm's length by the federated regional.

Closer examination of the involvement ratings sheds more light on this point. In comparing the activities-based rating scheme with the personnel involvement scheme, it might be expected that quite similar ratings would result, as activities and the people that perform them are essentially opposite sides of the same coin. This similarity

in ratings did exist in State B. However, in State A, the activities-based rating was considerably higher than the personnel involvement rating.

A possible explanation for this rests in the different operating philosophies in the two States. Locals in State B tend to view their relationship with the regional on a business transactions basis. Contact and involvement with the regional is matched to the business needs of the moment. In State A, locals tend to take a more systemwide view of their cooperative and regional. Involvement by the regional is expected and considered a desirable facet of an integrated system. Thus, they view regional involvement in their operations as something more than the sum of personnel contacts by regional employees.

Regional Managers View Regional Involvement

General managers and other top regional personnel evaluated, from their perspectives, their regionals' involvement in the operations of their local cooperatives. They stressed that regional involvement in local product purchase and service activities, policy input, and day-to-day operations reflects input and/or suggestions to local management at some point in discussion of local operations. It does not imply that regional personnel were involved in local board meetings or that they dictated specific actions to the local. More accurately, information and input from the regionals are considered in the local decisionmaking process, but final decisions are made by local boards and managers, according to their locals' needs and condition.

General managers of two federated systems evaluated regional involvement with the average local by rating 10 local activities on a scale from high, substantial, moderate, low, and no involvement—the same activities rated by local managers in table 12. Regional manager's ratings for the 10 activities are shown in table 14. One of the two regional managers consistently rated activities at the higher end of the scale, while the other was just as consistently at the lower end. In spite of this, there was considerable correlation between their views on the relative level of involvement in individual activities.

Regional managers indicated that three local activities—product purchase, advertising, and financial services—had a higher than average level of regional involvement. The two managers indicated a relatively low level of involvement in five local activities. Personnel selection at the locals received the lowest regional attention of any

activity, followed by product sales, managing receivables, merchandising, and operating efficiency. Thus regional managers' ratings were quite consistent with those of the local managers.

Regional input took the form of communication in person or by phone at various points in the locals' activities or deliberations. Regional input was initiated by either the local or regional, and usually involved regional personnel assigned to deal with the type of activity at hand.

In State A, regional department or division heads, training personnel, and general managers had a substantially high level of involvement with locals in dealing with their overall operations. In that State, regional involvement in day-to-day operations was the primary responsibility of field and product personnel, and division heads. Most of this involvement could be classified generally as product support. In State B, a different philosophy of regional involvement was practiced, with much more limited involvement by regional personnel in the various areas of local operations.

Comparing evaluations of regional personnel involved in local operations by local and regional managers shows again the nearly like thinking found earlier. The regional general manager in State A evaluated involvement by regional personnel as moderate overall, while in State B, the general manager saw only a low level of involvement.

Table 14—Regional general managers evaluate level of involvement in 10 local activities

Local activities	Regional involvement				
	High	Substantial	Moderate	Low	None
	Number				
Product purchase	1		1		
Product services		1		1	
Product information		1		1	
Product sales		1			1
Advertising	1		1		
Financial services	1			1	
Personnel selection			1		1
Managing receivables		1			1
Merchandizing		1			1
Operating efficiency		1			1
Total	3	6	3	3	5

Both, however, expressed the opinion that regional involvement with locals must increase to ensure the longrun health of the cooperative system in their areas.

Regional managers evaluated 10 problems or situations affecting local cooperative operations and rated each in terms of the extent of involvement by the regional which should be undertaken to correct the problems (table 15). To regional managers, each problem indicated the need for some level of regional involvement in assisting locals with their operating situation.

Problems or situations evaluated by regional managers as requiring the greatest level of involvement by the regional were poor financial condition, weak local manager, and weak local board. In the latter two areas especially, the regionals' personnel and training programs provided a strong basis for regional involvement.

Low regional involvement was indicated for a poor trade area, as little could be done to improve the trade area. Similarly, internal management problems, other than weak personnel, were considered outside the purview of the regional. Problems or situations evaluated as requiring a moderate level of regional involvement were low use of the regional, small size of the local, low operating efficiency, communication problems, and inadequate facilities. In these areas, the regionals' advisory expertise could be most beneficial to the locals.

Table 15—Regional managers evaluate problems that indicate need for greater involvement

Local factors	Level of regional involvement				
	High	Substantial	Moderate	Low	None
	Number				
Small size of local	0	1	1	0	0
Poor financial cond.	2	0	0	0	0
Weak local manager	2	0	0	0	0
Weak local board	1	1	0	0	0
Poor trade area	0	0	1	1	0
Low operating efficiency	0	1	1	0	0
Communicating problems	0	1	1	0	0
Inadequate facilities	0	1	1	0	0
Management problems	0	0	1	1	0
Low use of regional	1	0	1	0	0
Total	6	5	7	2	0
Percent	30	25	35	10	0

THEMES AND CONCLUSIONS OF THE STUDY

Local and regional managers say more regional involvement in local operations strengthens the cooperative system. While in some parts of the country, a declining role for regional cooperatives is seen down the road, the two federated cooperative systems in the Midsouth appear to provide evidence that regionals can do more, not less, by coordinating activities and services with member locals. Out of discussion with local cooperative managers and various regional cooperative personnel come several themes that have a bearing on the future of federated regional cooperative structures in the United States.

The Need for a Changed Relationship

Local supply cooperatives served the needs of farmers in the early stages of cooperative development in the Midsouth. When operating costs grew and product prices increased, local cooperatives formed regionals to purchase products in volume and at lower costs. Regional management at the time supported member locals and saw no reason to build regional staff and get more involved in local operations, as long as member locals served the farmer.

Changing economic conditions and changing agricultural operations, however, brought changes in cooperative operations. Direct-to-farm sales and services by manufacturers increased competition for cooperatives and forced some member locals to purchase products and services outside the system. This led to lower volume and increased operating costs at regional headquarters, results which also affected their operating efficiency.

Limited regional involvement uncovered a weakness of the system. Local support of the regional was not developed to the degree wherein co-op loyalty would overcome economic advantage. Locals had to decide between loyalty to the regional and economic service to farmers; generally economic reality won. As a result, operating and transport costs increased for the regional as local demand for products and services from the regional declined.

Declining local use of the regional between 1981 and 1984 and net operating losses concerned regional management. They feared that even more locals, under economic pressure, would purchase more products outside the system. When their fears were realized, they knew changes in operations and management practices were

needed to improve working relationships with locals. This regional awareness and concern for local support became increasingly evident at local and regional managers' meetings. The theme of more regional involvement in local operations became more pronounced.

At the same time, local managers were also becoming concerned with what they saw as an erosion of their federated regional system. What they were saying was that some locals had specific and economic reasons for dealing outside the system, other than general disappointment in regional operations or the federated regional concept. Local managers firmly believed that loss of a strong regional to serve them would create serious problems. They felt there was no better alternative than a strong regional and that both they and the regionals must, therefore, adapt and change the system to make it more effective.

The Evolving Role for the Federated Regional

One federated system long ago began to establish the path toward an integrated relationship with member locals. The other federation is beginning to develop such an integrated approach. Beyond the provision of products and support services, the relationships and linkages between locals and their regionals have been growing.

This relationship and particularly the role for the regional has developed over time. Initially, the purpose of the regional was to serve member locals by obtaining the low-cost-high-quality supplies needed by farmers. Out of this developed a role for the regional in promoting the cooperative system and the member local as the farmer's best source of supplies and services. Finally, a new role for the federated regional has begun to evolve, that of a centralized business support and coordination mechanism. These new roles do not replace the original purposes of the regional cooperative, rather they refine its responsibilities.

This new role for the regional arose out of the increased competitive pressures on local cooperatives and the need to seek greater efficiency in all areas. In this role, the regional becomes the focal point for information flows, recordkeeping, and data processing. Functions formerly performed by each individual local may be transferred to the regional where economies of scale may be gained and use of more sophisticated technology made feasible. The regional may provide the mechanism through which individual cooperatives balance their inventories and make more rational use of their distribution and delivery systems.

Strategy for Growth

Regional managers say the strategy for growth is to get more involved in local operations and promote the local as the farmer's co-op. This strategy would require changes and adjustments in operations at different levels in the system. Some regional activities might be handled more efficiently by member locals. In other areas, more regional involvement, utilizing people with the skills to evaluate and coordinate system operations, could improve system efficiency and competitiveness.

Some managers see a declining role for the regional as a supplier and handler of certain products. This is evident, they say, from the increasing trend to direct shipment of products to locals and farmers and to increasing costs of regional warehousing and delivery of products. Product purchase will remain a primary function of the regional, however. With the use of telecommunication between locals and regionals and suppliers, regionals could maintain volume purchase of products for locals. With improved information, planning, and communication, products could be purchased as required, while the need for large inventories at the local cooperative could be reduced.

With member local agreement, the most efficient method of distribution could be selected and coordinated from regional headquarters. Idle transport equipment of member locals could be used effectively for product delivery to other locals; more direct shipment, and more local pickup. Contract haulers also could be employed to a greater extent.

An increasing, but different role in terms of business support services is envisioned down the road for regionals. More operating and financial data could be provided to the regional by the locals. The regionals could, in turn, provide locals with an indepth analysis of the data, useful in evaluating their operations and developing strategies and plans. This local data could be used along with detailed regional operation and financial data to analyze ways to optimize the full cooperative system. Size, location, and utilization of regional-owned plants, mills, depots, and warehouses could be better planned and adapted to the needs in local areas. Costs and benefits of various local-local or local-regional joint operating arrangements could be studied.

Short-term strategy for growth, say regional managers, is to broaden involvement with locals, particularly with marginal and problem operations. Greater involvement is

needed to encourage efficient operations and share products and services between regional and local and with neighbor locals before merger with or failure of a county local. Operating changes are needed to promote locals as the farmer's co-op and to lay the foundation for efficient system operations.

When asked how regionals could assist locals in developing business strategy, managers said they should work together as business partners, as they have in the past. By working together, regionals have developed ongoing programs in education and training, health and retirement, facility and liability insurance, and regional sales support at locals. They share warehousing and delivery costs, have purchase incentive programs, credit policies, and discounts for cash payment. Locals have input into regional operations and benefit from regional management skills; both locals and regionals benefit from improved business relations.

Extensive and continuing communications between the locals and regionals is stressed as fundamental to the evolving federated system. Members of the staff must be frequently found at locals or conferring with local management. The training and education directors need to spend more time in the field than in the office, a habit which pays dividends. Division heads must communicate constantly with local management in product purchase and sales strategy.

Field representatives regularly contact and aid their assigned locals, well beyond writing orders and displaying promotional materials. Telecommunication between the regional and locals aids in the flow of information and supports working relationships that complement operations at each level. But it is the relationships among people that will build trust in the system and form the foundation change.

Cooperatives in the two States have definite advantages over those in many other parts of the country in adapting their federated systems to meet the needs for more coordination and integration. Their regionals operate largely free of the waste and inefficiency associated with the overlapping service areas of regionals in other areas. Their locals, while experiencing some intercooperative competition at the edges of their trading territories, largely confine operations to their single county. Thus, many of the rivalries hampering potential coordination are absent.

Midsouth cooperatives have only to build on their local-regional relationship to establish total system operations. Through dedication and commitment to the system and acting together, local cooperatives and their federated regionals can challenge any competitor on equal or better terms. By stressing involvement and achievement, they have already laid the foundation for future growth.

* NATIONAL AGRICULTURAL LIBRARY
1022349738

Py

**U.S. Department of Agriculture
Agricultural Cooperative Service
Washington, D.C. 20250**



Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

ACS publishes research and educational materials and issues Farmer Cooperatives magazine. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, age, handicap, or national origin.